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February 9, 1981

A Review of CIA Forecasts of Soviet Economic Development

1. Over the past 30 years the type and focus of CIA's forecasts of the Soviet economy have varied widely. These shifts have reflected changes in the availability of Soviet data, the sophistication of the Soviet economy, and the changing needs of US policymakers. In the 1950s, economic intelligence research was concerned almost entirely with the ability of the Soviet economy to support the USSR's military and space programs and an aggressive foreign policy. This research, published in a series of National Intelligence Estimates, included several multi-year forecasts of economic growth based on a sector-by-sector analysis of the Soviet economy. This detailed research gave us a better understanding of resource allocations, structural weaknesses, and growth potential within the USSR. In the late 1960s, with the easing of the cold war and the surge in interest of US policymakers in improving economic relations with the USSR, CIA's forecasts were often just one aspect of broader studies of the Soviet economy. During the first half of the 1970s, CIA studies continued medium range forecasts of aggregate indicators of economic performance (e.g. GNP). In addition, yearly papers focused on the economy's short term outlook, usually for the coming year. In the late 1970s and early 1980s with the weakening of detente and the slowing of Soviet economic growth our studies addressed the longer term outlook and the interaction between economic growth, oil production, defense spending, and foreign trade. (OUO)

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2. The main purpose of much of the forward-looking CIA studies of the Soviet economy was to identify the trends and forces at play and not solely to make specific numerical forecasts. For example, when economic and administrative reforms were introduced in the late 1950s and again in the mid-1960s, CIA was skeptical that such reforms would have a widespread or lasting effect. This view was not generally shared by Western political analysts but was borne out by subsequent developments. CIA also steadfastly argued that the USSR could afford large and increasing military outlays when some outside analysts were arguing that it could not. More recently, the USSR's massive grain purchases from the US led many in the intelligence community to conclude that the US on its own had an opportunity to exploit the Soviet dependence on Western grain. CIA disagreed, establishing a position which now seems to have received general community acceptance. In the past few years, CIA has predicted a slowdown in the growth of oil production and a likely decline in the 1980s, a prediction which for the most part appears to be coming true.

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3. CIA forecasts of the growth rate of Soviet gross national product are shown in Table 1 and of industrial and agricultural production in Table 2. The forecasts have accurately predicted the long-term slowdown in the economy but have tended to underestimate the rate of decline in growth rates. Some of this underestimate is because our forecasts assume normal weather for Soviet agriculture over a particular forecast period. The bad weather of the last three years has led to growth rates in the late seventies and early eighties that fall considerably short of our earlier estimates. Because the

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contribution of the agricultural sector to GNP is much greater in the Soviet economy than in most Western industrialized economies, the impact of weather is much greater on the growth of Soviet gross national product than in Western economies. Furthermore, in the past few years we have underestimated the impact on industrial growth of several emerging problems such as severe transportation problems as well as the falling quality and in some cases even falling output of raw materials. [REDACTED]

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4. CIA forecasts of Soviet oil production also have been reasonably accurate. Table 3 summarizes four types of our forecasts: the actual level in 1980, the date and level of peak production, and the levels of production in 1985 and 1990. All of our forecasts of the 1980 level of production were low but by small margins. Our forecasts of the peak production level is also likely to be somewhat low, but well within the accuracy of these estimates considering the large uncertainties involved. Production in 1981 increased by only one percent and is likely now to be at the peak or very close to it. Our forecasts of production levels in 1985 and 1990 all show substantial declines compared with the current production level. It is this impending fall in production, not the ultimate level of production, that has the primary impact on the forecasts of Soviet economic growth. It should be noted, however, that these estimates are now under review. Research currently underway will expand the analysis underlying the long-term forecasts of Soviet oil production, and provide an improved basis for a new estimate. [REDACTED]

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Table 1

CIA Forecasts of the Average Annual  
Rate of Growth of Soviet  
Gross National Product  
(Percent Per Year)

<u>Period</u>	<u>Forecast</u>	<u>Actual</u>
1955-60	5	5.3
1956-61	7	5.8
1957-62	6 - 6.5	5.1
1958-61	6 - 6.5	5.7
1966-70	4 - 5.5	5.2
1971-75	4 - 5	3.7
1973-75	5 - 6	4.3
1974-75	5 - 6	2.8
1974-80	4.5 - 5.5	2.7
1976-80	4	2.7
1977-80	3.75 - 4.25	2.1
1978-80	4	1.8
By mid-1980s	1 - 2	n.a.
1981-85	2.5	n.a.

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Table 2  
CIA Forecasts of Growth in Soviet Industrial and Agricultural Production  
(Percent Per Year)

	<u>1955-60</u>	<u>1956-61</u>	<u>1957-62</u>	<u>1958-61</u>	<u>1966-70</u>	<u>1971-75</u>	<u>1973-75</u>	<u>1976</u>
<u>Industrial Output</u>								--
<u>Predicted</u>	7.5	10.5	9.5	9.0	6-8	less than 6	6-6.5	--
<u>Actual</u>	8.7	8.0	7.9	8.0	6.3	5.9	6.1	--
<u>Agricultural Output</u>								
<u>Predicted</u>	4.0	4.5	4.5	3.0	3-5	less than 3.5	--	1.0
<u>Actual</u>								
Moving average for 3 years	5.7	4.3	2.3	2.7	3.2	1.6	--	1.1
Straight annual average	5.9	5.0	2.5	4.1	3.9	-0.4	--	8.1

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Table 3  
CIA Forecasts of Soviet Oil Production  
(Million Barrels Per Day)

A. Forecasts of 1980 Production

<u>Date of Forecast</u>	<u>Forecast</u>	<u>Actual</u>
July 1976	11.8	12.0
August 1978	11.5	12.0
July 1979	11 - 12	12.0
October 1979	11.8	12.0

B. Forecasts of Peak Production

<u>Date of Forecast</u>	<u>Forecast</u>
March, April, and August 1977	"soon ... possibly as early as next year (1978) and certainly not later than the early 1980s. The maximum ... is likely to be between 11 and 12 million barrels per day."
June 1978	11 - 12 million barrels per day.
July 1979	May peak in 1979 or 1980.
June and July 1979	"May have entered a no-growth stage this year (1979)..."

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July 1980

". . . chances are good that Soviet oil production will peak this year at less than 12 million barrels per day ..."

April 1980

". . . will peak this year (1980) at less than 12 million b/d (barrels per day) before beginning to fall."

January and May 1981

"At best production will remain at 12 (1981-83) ..."

C. Forecasts of 1985 Production (million barrels per day)

<u>Date of Forecast</u>	<u>Forecast</u>
March, April, June and August 1977	8 - 10
June and August 1978	8 - 10
July 1979	8 - 10
May and July 1980	8 - 10
January, April, and May 1981	10 - 11
October 1981	10 - 12

D. Forecasts of 1990 Production (million barrels per day)

<u>Date of Forecast</u>	<u>Forecast</u>
May 1980	7 - 8
January, April, and May 1981	7 - 9

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